

***United States Court of Appeals  
for the Second Circuit***



**APPELLANT'S  
BRIEF**





# 74-2315 75-7106

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U.S. COURT OF APPEALS  
SECOND CIRCUIT

In The  
**United States Court of Appeals**  
For The Second Circuit

BRIAN S. JONES, as Receiver for PERMADENT  
PRODUCTS CORP.,

*Appellant,*

- against -

CERAMCO, INC., a corporation of the State of New York; H.  
GORDON PELTON, IRVING KLAUS, JOHN H.  
LEATHERMAN, and NORMAN LEVINE,

*Appellees.*

*On Appeal from the United States District Court for the Eastern  
District of New York*

## BRIEF FOR APPELLANT

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### PRELIMINARY STATEMENT

This appeal is from the judgment entered below in the United States District Court for the Eastern District of New York by the Honorable Thomas C. Platt, United States District Judge. Judge Platt's (the "Trial Court's" hereinafter) opinions are reported at 378 F.Supp. 65, 184 U.S.P.Q. 75 (1974) F.Supp. , 184 U.S.P.Q. 592 (1975).

### ISSUES PRESENTED FOR REVIEW

- I. THE DELAY IN GIVING NOTICE OF INFRINGEMENT AND IN BRINGING SUIT IS REASONABLE
- II. EVEN IF THE DEFENSE OF LACHES BE FOUND VALID, A PROPER REMEDY IS TO LIMIT THE AMOUNT OF DAMAGES, NOT TO PREVENT ENFORCEMENT OF THE PATENT
- III. THE DISTRICT COURT'S HOLDING THAT THE STATUTE OF LIMITATIONS BARS THE REMEDIES FOR BREACH OF CONFIDENTIAL INFORMATION AND AND TRADE SECRET VIOLATIONS IS INCORRECT
- IV. THE RECEIVER'S INABILITY TO FILE AN ACTION BASED ON VIOLATION OF TRADE SECRETS AND CONFIDENTIAL INFORMATION SHOULD NOT BE BARRED BY LACHES

## STATEMENT OF THE CASE

### Summary of District Court Proceedings

This is an action for patent infringement and theft of trade secrets brought by Plaintiff Brian S. Jones, as Receiver for the assets of Permament Products Corp. against, respectively, Ceramco, Inc., H. Gordon Pelton, Irving Klaus, John H. Leatherman and Norman Levine pursuant to the Patent Laws of the United States, Title 35 U.S.C., for infringement of United States Letters Patent No. 3,052,982 (the patent-in-suit hereinafter) issued on September 11, 1962 entitled "Fused Porcelain-To-Metal Teeth" in the name of Morris Weinstein, Sigmund Katz, and Abraham B. Weinstein, as inventors (App. p. 18). The trade secret cause of action arises under Plaintiff's common law rights embodied and protected by the laws of the State of New York.

Defendants brought on a motion to dismiss both causes of actions, and the Court dismissed the trade secret cause of action while upholding Plaintiff's right to bring the suit under the Patent Laws. This decision was issued on July 24, 1974 (App. p. 73), 378 F.Supp.65, 184 U.S.P.Q. 75 (1974). A motion for reconsideration was filed by Defendants on November 14, 1974, and in a Memorandum and Order of January 7, 1975, the District Court dismissed both causes of action and the Complaint in its entirety. This



2  
appeal (App. p. 128) by Plaintiff from the judgment was timely filed.

Statement of Facts Relevant to the Issues  
Presented for Review

Since this case comes before this Court on the motion to dismiss, the allegations in Plaintiff's complaint are taken to be correct. Therefore, the more material and important facts admitted, for purposes of this Hearing, will be set forth hereinafter, and were succinctly summarized in Judge Platt's decision above. Plaintiff is the Receiver for the assets of Permadent Products Corp. (App. p. 46). Permadent Products Corp. (hereinafter "Products") was formed during the early 1950's, and the five individual defendants were key employees and left the employ of Products in April, 1959, and founded the Defendant Ceramco, Inc., which company thereafter competed directly with Products by manufacturing, selling and distributing the same materials used in Products tooth construction (App. p. 39-45).

The individual defendants conspired prior to leaving Products to commit industrial piracy, as a consequence of such actions. Products' business diminished and a Chapter XI Petition in Bankruptcy was filed. Defendants wrongfully

appropriated Products' trade secrets, trade information, documents and materials for their own use, abridged their contractual and fiduciary obligations to Products, appropriated Products' inventions, and stole physical materials used in the formulation of the materials sold by Ceramco, Inc. when it originally began business. Some of the materials stolen related to suppliers, customers, chemical formulas for coloring, and other matters generally of a trade secret and confidential nature (App. p. 3-13).

The five named individual defendants occupied key positions in Products, and their leaving and setting of a directly competing operation contributed to the demise of Products' business and its eventual Chapter XI Petition in Bankruptcy.

The above facts relate to some of the issues regarding trade secrets, and there is a long and tortured history regarding the clearing of title as the patent-in-suit (App. p. 39-45). Briefly, when the Receiver, Plaintiff-Appellant, herein, assumed the assets of Products, there was a cloud on title which existed until 1972. It was through Plaintiff-Appellant's diligence that the cloud on title was eventually cleared so that one of the principal assets of Products, the patent-in-suit, could be enforced. The details of the cloud on title are now set forth hereinafter, as attested in the



Affidavit of Plaintiff (App. p. 39-45).

Products was founded in January 1953, by John Weber and in 1959 an agreement was entered into with Permadent Manufacturing Corp. (hereinafter "Manufacturing") by which the latter acquired all the assets of Products in return for an agreement in which Manufacturing would manufacture and Products would sell dental supplies in which both parties would share income derived from such manufacturing and sales.

On March 9, 1960, Manufacturing served notice of termination of that agreement to take effect 60 days thereafter. On May 7, 1960, Products filed a petition in the United States District Court for the Southern District of New York under Chapter XI of the Bankruptcy Act and for all practical purposes, the operations of Products ceased at that time.

On October 4, 1960, an attorney acting for the creditors of Products filed a lawsuit attacking the 1959 bulk sale transfer made under the agreement between Products and Manufacturing and on April 6, 1961, Plaintiff-Appellant was appointed the temporary Receiver of Products, which appointment was not made permanent until April 1, 1963 (App. p. 46).

The action to set aside the bulk transfer was prosecuted successfully through the Court of Appeals of the State of New York and an order was entered directing that all assets

be retransferred back to the Plaintiff- Appellant as Receiver. As a result thereof, a stipulation was made and entered into between the parties and others which was ultimately approved by order of the Supreme Court, New York County, entered on May 25, 1966.

With respect to the patent-in-suit, it is based upon an application filed on October 15, 1959, having Serial No. 846,753 which was assigned by the inventors to Abraham B. Weinstein (hereinafter "Weinstein") who in turn assigned the patent, after it was issued on September 11, 1962, to Products. Application 846,753 was in large part based on two prior patent applications filed in the United States Patent Office having Serial Nos. 479,804 and 348,838 (App. p. 129). The inventors of the earlier applications were identical to the inventors of the application having Serial No. 846,753 which matured into the patent-in-suit. The inventors of the earlier applications 479,804 and 348,838, in an agreement dated July 22, 1959, assigned their rights to Weinstein, who in turn assigned his rights therein to Manufacturing.

As a result of these transfers, one to Products and the other to Manufacturing, there was cloud on title to the patent-in-suit, so that the Receiver could not assert title in seeking to enforce the rights of Products. David



Bromberg, Trustee in Bankruptcy for the Estate of Weinstein, asserted that the transfer of title by Weinstein to Products of the patent-in-suit was defective and threatened to contest title and Plaintiff-Appellant was provided with two letters from the patent attorneys (App. p. 66 and 70) confirming the existence of the cloud on his title to the patent-in-suit.

Plaintiff-Appellant entered into settlement negotiations with all the interested and agrieved parties so as to effect proper title and be able to enforce the rights of the patent-in-suit, and finally a settlement agreement was reached and approved by order of April 20, 1972 of the Supreme Court, New York County (App. p. 50) which finally conferred on Plaintiff-Appellant full and clear title to the patent-in-suit.

The present suit was commenced on March 22, 1974 while a companion suit against one of Defendants' customers was filed in the United States District Court for the District of Connecticut on January 2, 1974, that companion suit being Brian S. Jones, as Receiver for Permament Products Corp., Plaintiff, vs. County Dental Porcelain Laboratory, a partnership; Walter Zeitler, John Guggeis, George Abrach, individually and as partners of County Dental Porcelain Laboratory, Defendants., Civil Action No. B-74-2.

## ARGUMENT

### Summary of Argument

There are essentially two separate areas on appeal and each will be presented in summary form hereinafter.

The District Court, in its opinion below, denied Plaintiff-Appellant's right to enforce its patent against these defendants on the equitable defense of laches. In this, the Court erred since the delay in both filing suit and giving notice was prompted by the cloud on title, which the District Court found justifiable and real in its first decision of July 24, 1974, 184 U.S.P.Q. at 77, (App. p. 80). Further, whatever financial difficulties there were were in part attributed to the financial position of Products, which was forced into bankruptcy, in part due to the illegal and unfair acts of the individual defendants.

In assessing whether or not the defense of laches can be successfully proffered, this Circuit has consistently taken a "balancing" approach, as is proper in equity situations, and the most recent pronouncement by this Court appears in Royal McBee Corp. v. Smith-Corona Marchant, Inc. 130 U.S.P.Q. 377 (2nd Cir. 1961).

The fact that Plaintiff-Appellant had a real and severe difficulty in clearing the title has long been held to be adequate reason for a delay in bringing suit. Taylor Engines,



Inc. v. All Steel Engines, Inc., 92 U.S.P.Q. 35 (9th Cir. 1951), Berry v. Bohn Aluminum & Brass Corp. 43 U.S.P.Q. 132 (E.D. Mich. 1939), Skinner v. Dow Chemical Co., Inc., 85 U.S.P.Q. 191 (E.D. Mich. 1950).

The District Court below found upon rehearing that Plaintiff-Appellant's failure to give notice of its intention to sue should tip the scales of equity in favor of the Defendants and completely bar the enforcement of the patent-in-suit against them. But the Plaintiff-Appellant's failure to give notice to sue under the patent-in-suit was as reasonable as his failure to bring suit, since Plaintiff-Appellant was not in the position to assert rights to a patent which he did not clearly own.

Defendants, at no time, have operated under the presumption that they are not infringing the patent-in-suit, and their latest protestations to good faith operations can hardly be considered proper. Further, in view of the motion to dismiss, the allegation that Defendants have knowingly, intentionally and willfully violated Plaintiff-Appellant's rights must be taken as accurate. Such willful and wanton conduct cannot be condoned by rewarding the Defendants with freedom from suit.

Even if laches is found, the question of what effect it has was improperly decided by the District Court. In Royal

McBee, this Circuit has said that there is a great distinction between past and future infringement and that a laches defense may not amount to estoppel. Delay in bringing suit should preclude recovery of damages for the statutory period prior to notice of infringement, but should not act to destroy the right to prevent future and further injury. In this regard, Plaintiff-Appellant represents that it always has been ready, willing and most interested in arriving at reasonable license terms with anyone in the industry.

With regard to the trade secrets issues, this Circuit is bound to follow the law of the Law of New York State, and consistently, it has been held by the Court of Appeals of the State of New York that the breach of a confidential relationship gives rise to continuing acts of infringement, with each act giving rise to a separate cause of action.

General Precision Inc. v. Ametrek, Inc., 285 N.Y.S. 2d, 867 (1967).

#### POINT I

##### THE DELAY IN GIVING NOTICE OF INFRINGEMENT AND IN BRINGING SUIT IS REASONABLE

Consistently, all courts have found that where title was clouded, a defense of laches or estoppel should not be granted. Certainly, in the present situation, the Plaintiff-Appellant had been diligent in his long quest to clear title,



and improper early notification of an intention to sue would have been without force, since the Receiver would not have been able to properly assert title.

In Taylor Engines, Inc. v. All Steel Engines, Inc. 92 U.S.P.Q. 35 (9th Cir. 1951) laches was asserted as a defense in a patent infringement action. The court summarily dismissed this issue because "During the period of time in question appellees were busy defending their title" to the patent-in-suit in the state court. id at 37. Similarly, in Berry v. Bohn Aluminum & Brass Corp. 43 U.S.P.Q. 132 (E.D. Mich. 1939) the defense of estoppel was asserted. In that case, the title was in question because of the existence of interference proceedings in the U.S. Patent Office. Such proceedings relate to the issue of first inventor, and until such proceedings are clarified, the issue of title to the invention in question is clouded. In that case, the court rejected the defense of laches and estoppel because of the cloud on title, id. at 141. In another case involving confusion of title, Skinner v. Dow Chemical Co., Inc. 85 U.S.P.Q. 191 (E.D. Mich. 1950) Plaintiffs brought suit shortly after they received back title to a patent that finally came as a result of a long law suit. Thus, the cloud on title to the patent-in-suit in that action was reasonable explanation for the delay from the date of the patent to

the institution of the litigation. Thus, in the present instance, the delay is clearly excusable and Plaintiff has been diligent to the utmost in seeking redress of its rights in these matters.

The District Court, in its opinion below, 184 U.S.P.Q. at 77, specifically approved of the holding in these cases above when it stated

"While the Court is mindful of, and troubled by the amount of time that has elapsed during which no action has been taken against the alleged infringers, nonetheless the Receiver's problems and difficulties in perfecting clear title to the patent in suit appear to have been substantial and real and he has moved with reasonable dispatch since his title has been perfected and cleared."

In the rehearing before the Court below, the Court found that the Receiver's failure to give notice tipped the scale of equity in favor of Defendants and allowed the issue of laches to prevent the Receiver from enforcing his rights at all under the patent. It is believed that this holding is in error in at least two respects.

Further, specific portions of the Court's opinion below believed to be in error and they are reproduced hereinafter:

"The difficulty that the Court has with the plaintiff's argument is that the authorities seem to say that after six years without any notice or claim of infringement by a plaintiff, a defendant may presume that he is not infringing plaintiff's rights. A presumption of harm or injury to the defendant after such time certainly exists and a necessary corollary to such presumption is defendants' presumption that they were not infringers." 184 U.S.P.Q. at 593 (App. p. 121).



In each of the cases, American Home Products Corp. v. Lockwood Manufacturing Co., 483 F.2d 1120 (6th Cir. 1973) Technitrol Inc. v. Memorex Corp., 376 F.Supp.828 (N.D. Ill. 1974), Siemens Aktiengesellschaft v. Beltone Electronics Corp., 381 F.Supp. 57 (N.D. Ill 1974), cited by the Court below as support for its decision to deny Plaintiff relief for the delay in giving notice, each of the parties charged with failure to give notice, did not have any bar to asserting their being able to give notice. In each case, each of the patent owners had clear title and chose not to give notice for whatever reasons they saw fit. This is certainly not the case in the present situation. The receiver did not have clear title and could not give notice of an intention to sue when it did not know that it would ever have title. To threaten to sue on a United States Letters Patent without proper title is hardly believed to be a proper course of conduct, nor should it be sanctioned or even encouraged. Those who give notice of intention to sue should not be falsely raising red flags and otherwise harrassing the general business community without proper knowledge that it has the right to make such threats. When title was finally cleared, Plaintiff-Appellant moved with dispatch to see that the patents in fact were infringed and then thereafter filed suit.

The presumptions alleged above that the Defendants are not infringing Plaintiff's rights has no place in the present matter since, for the present purposes, Plaintiff's allegations are taken to be correct. Further, at no point in any of the proceedings below, have Defendants shown any facts to support a belief that they were not infringing the patent-in-suit, such as letters from patent counsel or the like supporting such a good faith position.

The District Court below failed to follow this Circuit in that it improperly assessed the Receiver's proper conduct by penalizing it. In Royal-McBee Corp. v. Smith-Corona Marchant, Inc. 130 U.S.P.Q. 377, 381 (2d Cir. 1961) this Court stated:

"But the defendant contends that it was misled by more than mere acquiescence, that the letter sent to it by the plaintiff's attorneys amounted to a misrepresentation which would support an estoppel. It might be argued that a court should bar the patentee who actively misrepresents his intentions if the defendant has acted at all in reliance on the representation although such reliance would be insufficient had the patentee merely been silent. We think, however, that more active participation by the patent-holder in creating a misleading appearance should not bar the plaintiff altogether, but that it should be one factor in the district court's choice of a proper remedy." (Emphasis added).

Rather than actively misrepresent his position, the Receiver made no representations until he was sure he could actually sue on the patent, when title was finally cleared.



If misrepresentation had been made without title, it is believed that it would have been improper, and the Receiver's conduct should not be condemned, but should be condoned in accordance with the statement cited above in Royal McBee.

## POINT II

EVEN IF THE DEFENSE OF LACHES BE FOUND  
VALID, A PROPER REMEDY IS TO LIMIT THE  
AMOUNT OF DAMAGES, NOT TO PREVENT EN-  
FORCEMENT OF THE PATENT

As presented above, the Defendants' conduct should not entitle them to the benefit conferred by the District Court below. In fact, on the simple issue of laches alone, without any misconduct on the part of Defendants, it is believed that the opinion of the District Court below should be reversed. Even if this is not found to be the case, it is believed that there is a great distinction between laches and estoppel and between past and future damages. This has been clearly enunciated and is the law of this Circuit as stated in the Royal McBee case.

The remedy decreed by the District Court below in this matter is not believed to be fair in view of all circumstances and not in view of the teachings of Royal McBee. In that case, this Circuit affirmed the holding of a District Court in Royal Typewriter Co. v. L.C. Smith-Corona Typewriters, Inc., 77 U.S.P.Q. 298 (D. Conn. 1947). In that case, there was a

delay in bringing suit and the Second Circuit approved Judge Smith's decision in which it held that the Plaintiff had forfeited its rights to an accounting and damages for past infringement, but its rights to prevent future infringement were unaffected. As support for its position, the Court cited with approval a long-standing Supreme Court holding in Menendez v. Holt, 128 U.S. 514, 524-25 (1888):

"So far as the act complained of is completed, acquiescence may defeat the remedy on the principle applicable when action is taken on the strength of encouragement to do it, but so far as the act is in progress and lies in the future, the right to the intervention of equity is not generally lost by previous delay, in respect to which the elements of an estoppel could rarely arise. \* \* \* Delay in bringing suit there was, and such delay as to preclude recovery of damages for prior infringement, but there was neither conduct nor negligence which could be held to destroy the right to prevention of further injury."

In that case, as here, the Defendant maintained that the laches for more than the statutory period barred all relief, and was followed by Gillons v. Shellco, 32 U.S.P.Q. 1 (9th Cir. 1936), cert. denied 302 U.S. 689, 37 U.S.P.Q. 842 (1937). This Court, in Royal McBee, failed to find that there was any inconsistency in that in Gillons the Plaintiff had asked for an accounting for past infringement which was denied, whereas in the case before the Court at that time, the Second Circuit approved the decision of Judge Smith which allowed a remedy for infringement in the future.



Further, in the decision, though, the Court stated:

"Delay alone might be a complete bar if, in reliance upon it, the alleged infringer has so far changed its position as to make relief in futuro inequitable." Royal McBee at 381.

In assessing the requisite potential remedies, this Court is not bound to only grant an injunction, and the Plaintiff's willingness to grant licenses should be considered, as well. Certainly, where the equities of the present matter are as they appear to be with the Defendants not being in the position of "angels", it would appear a proper balancing of all equities would not lead to a complete denial of Plaintiff's rights, as found by the Court below. In fact, in the Royal McBee case, the District Court found that injunctive relief would be denied, but the payment of a fair royalty for the continued use of the device during the short period of the remaining life of the patent was equitable. This was approved by this Court when it stated:

"We find this flexible approach towards a difficult problem of balancing equities in patent litigation most desirable, and we think the remedy was fully warranted by the facts of this case." 130 U.S.P.Q. at 381.

This type of approach was also recently approved by this Court in Foster v. American Machine & Foundry Co., 182 U.S.P.Q. 1 (2d. Cir. 1974), cert. denied 183 U.S.P.Q. 321 (1974).

In Esco Lighting Co. v. Lighting Services, Inc., 78 U.S.P.Q. 191 (S.D.N.Y. 1973), the District Court held an eight year delay from the time of first charging infringement to the institution of a law suit sufficient to deny all relief sought. In that case, which generally followed the Royal McBee case, specific notice of intention to sue was filed, and no action was taken for the above-mentioned eight year period. Further, the Defendant denied the charge of infringement, and it could be argued, operated in good faith thereafter. Those facts do not exist in the present matter, since, for purposes of this motion, Defendants knew and always were aware of the fact that they were infringing on Plaintiff's rights. Therefore, the equities set forth in that case, especially with regard to the growth of the business, are not seen to be the same as in the present matter, where the Defendants do not stand in such good faith position.

As a basis for the general holdings that laches serves to defeat a patentee's rights, there is the rationale as articulated in Esco Lighting at 192 where the Court stated: "It would be highly inequitable for a Court to award either damages or an injunction when at long last the patentee senses that it is worth his while to sue." Certainly that



rationale is not present in the present case, since the Plaintiff-Receiver expended great amounts of time and energy seeking to perfect title, that effort taking approximately a decade. The Plaintiff-Receiver, herein, did not sit idly on his rights waiting for the Defendants to grow, but effectively sought to clear his right to enforce the patent rights, as expeditiously as possible. The Receiver should not be penalized for his diligent efforts by the District Court's bursting of a balloon, which took so long to fill.

In an analagous case, Minnesota Mining & Manufacturing Co. v. Berwick Industries, Inc., 182 U.S.P.Q. 111 (M.D. Pa. 1974), the District Court, in a carefully reasoned approach to the various equities involved, and with the above-mentioned Menendez and Royal McBee cases in consideration, found that the laches issue did not defeat Plaintiff's future rights, and the Court was to hold a hearing to determine the balancing of equities to consider whether a fair royalty for continued use of the device during the relatively short period of the remaining life of the patent would be equitable.

#### POINT III

THE DISTRICT COURT'S HOLDING THAT THE  
STATUTE OF LIMITATIONS BARS THE REMEDIES  
FOR BREACH OF CONFIDENTIAL INFORMATION  
AND TRADE SECRETS IS INCORRECT

As part of the District Court's holding in its first

order of July 24, 1974, the Court found that the New York Statute of Limitations appears to be a complete bar to the cause of action based upon theft of trade secrets and confidential information. (App. p. 81). In this Circuit, the position of the State of New York would appear to be controlling, and the District Court's decision is clearly at odds with the ruling of the highest Court of the State of New York. In General Precision, Inc. v. Ametek, Inc. 285 N.Y. Supp. 2d 867, the Court of Appeals of the State of New York in 1967 affirmed the clear ruling that repeated use of trade secret information extends the time in which to sue, although damages are limited to six years. The Court specifically held that a cause of action for continued breach arises each time there is a failure under the confidential relationship, and therefore, the Statute of Limitations is not applicable. The entire decision is reproduced hereinafter for purposes of facilitating this Court's review of said decision.

"Appeal from Supreme Court, Appellate Division, First Department. 26 A.D.2d 909, 274 N.Y.S. 2d 340. Plaintiff alleged that on March 15, 1951 its predecessor in interest entered into a contract with defendant by the terms of which plaintiff's predecessor agreed to disclose to defendant secret designs and processes over which it had maintained exclusive control, for the manufacture of certain unique mechanisms known as synchros, and that under



such contract the defendant agreed to use the confidential information disclosed by plaintiff's predecessor in interest to manufacture and sell synchros, as subcomponents of larger mechanisms for a period of not more than five years but that, in continuing violation of the contract, the defendant continued to manufacture and sell synchros after the termination of the five-year period specified in the contract. In support of motion for dismissal of the complaint the defendant alleged that the alleged breach, if any, occurred at the termination of the five-year period, and that, accordingly, the causes of action arose in 1956 and were barred by the statute of limitations because the action was not brought until October 2, 1964.

The Supreme Court, Special Term, New York County, Mitchell D. Schweitzer, Jr., entered an order which, with respect to a motion by defendant for dismissal of the complaint on ground that the three causes of action were barred by the six-year statute of limitations, granted the motion to the extent of barring all three causes of action for the period prior to October 2, 1958, or six years prior to commencement of the action on October 2, 1964, and denied the motion in all other respects. The Special Term held that, though a total and complete breach gave rise to a cause of action on the date of the breach, a cause of action for a continued breach arose on each occasion of alleged failure to perform, and that therefore the motion could be granted only to the extent of barring the causes of action for the period prior to six years before the commencement of the action, and that numerous issues of fact had been raised which precluded summary disposition of the case.

The Appellate Division entered an order October 6, 1966 which affirmed the order of the Special Term. The question was certified "Was the Appellate Division correct in affirming the Order of Special Term?"

The defendant appealed to the Court of Appeals by permission of the Appellate Division.

Stroock & Stroock & Lavan, New York City  
(David Schwartz, Alvin K. Hellerstein and  
Arnold I. Rich, New York City, on the brief),  
for d .endant-appellant.

Order affirmed, with costs. Question certi-  
fied answered in the affirmative.

All concur."

That decision is consistent with the prior New York  
decision in this matter, Sachs v. Cluett Peabody & Co.,  
177 Misc. 695, 31 N.Y.S. 2d, 718, 722 (Sup.Ct. 1941), re-  
versed on other grounds 265 App. Div. 497, 39 N.Y.S. 2d,  
853, 857, 858 (1st Dept. 1943).

With the facts as pleaded by the Plaintiff, and as  
accepted as being true for purposes of this motion, the  
theft of trade secrets occurred during 1959. At that time,  
the information stolen was trade secret, especially that  
relating to the materials subsequently published in the  
patent. The subsequent printing of the patent did not re-  
form the earlier theft.

The theft of trade secrets and confidential information  
was not limited to that printed in the patent-in-suit, but  
additional and specific trade secrets, such as coloring  
materials, chemical formulas and other related technical  
materials were stolen. Further, Permament Products Corp's  
business records, customer lists, supply accounts and other  
vital information was stolen by Defendants at the time they



violated the confidential relationship they held with Products. In this case, the continued and ongoing use of the various information gave rise to an ongoing breach and the Statute of Limitations only limits the amount of past damages recoverable.

As a defense, it is alleged that the specific items stolen or misappropriated did not constitute trade secrets nor confidential information. It is believed this is a matter for trial, and such questions can only be answered after full and effective hearing on these issues.

#### POINT IV

THE RECEIVER'S INABILITY TO FILE AN  
ACTION BASED ON VIOLATION OF TRADE  
SECRETS AND CONFIDENTIAL INFORMATION  
SHOULD NOT BE BARRED BY LACHES

The reasoning applied above with regard to the confusion of title of the patent-in-suit is also applicable to the ability of Plaintiff to move ahead with regard to the violation of its trade secrets and other acts which related to the invention protected by the patent-in-suit. For the Plaintiff to have brought an action based upon the unfair trade practices of Defendants herein, without clearly establishing title to the patent-in-suit, would have subjected Plaintiff to the most obvious defense. That is, the title

to both the patent-in-suit and the inventions on which the patent is based was not clearly established in Plaintiff. Thus, until title to both the patent and inventions covered by the patent-in-suit was established, Plaintiff was incapable of pressing forth its claims for the benefit of the creditors of Products. Thus, since Plaintiff has exercised maximum diligence in seeking to establish clear title to the patent-in-suit and the inventions covered thereby, it would seem grossly unjust and inequitable to now penalize Plaintiff finding that his efforts were empty. It would further seem that the efforts of Defendants materially contributed to the demise of Permament Products Corp., and as a result thereof, the Chapter XI Petition was filed. Defendants should not profit from their wrongdoing by contributing to the demise of Products; they also contributed to the long and arduous litigation surrounding the issue of title to the patent and inventions in question herein. Thus, Defendants should not be able to profit by their wrongdoing, that is, to profit by causing Plaintiff, Permament Products Corp., to be bankrupt, that bankruptcy resulting in the above-mentioned cloud on the title to the inventions and patents.



#### CONCLUSION

The decisions of the District Court fully denying Plaintiff's rights both under the patent-in-suit and under the trade secrets should be reversed in their entirety, or in the alternative, this case be remanded to the District Court for further findings of facts on the issues decided therein.

Respectfully, submitted,

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UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

BRIAN S. JONES, etc.,

Appellant,

against

CERAMCO, INC., etal.,

Appellees.

Index No.

Affidavit of Personal Service

STATE OF NEW YORK, COUNTY OF NEW YORK

ss.:

I, Victor Ortega,

being duly sworn,

deposes and says that deponent is not a party to the action, is over 18 years of age and resides at

1027 Avenue St. John, Bronx, New York

That on the 28<sup>th</sup> day of April 1975 ~~1974~~ at 345 Park Ave, New York, N.Y.

deponent served the annexed BRIEF

upon

MORGAN FINNEGAN DURHAM &amp; PINE

the Attorneys in this action by delivering <sup>2</sup> a true copy <sup>ES</sup> thereof to said individual personally. Deponent knew the person so served to be the person mentioned and described in said papers as the Attorney(s) herein,

Sworn to before me, this 28<sup>th</sup>  
day of April 1975 ~~1974~~

Victor Ortega  
Print name beneath signature

VICTOR ORTEGA

ROBERT T. BRIN  
NOTARY PUBLIC, State of New York  
No. 31-0418950  
Qualified in New York County  
Commission Expires March 30, 1977



